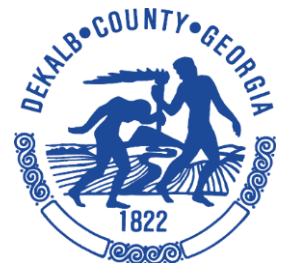


DEKALB COUNTY GOVERNMENT
Finance Department – Payroll Services

FINAL REPORT



John L. Greene, CIA, CIG, CGAP, CGFM
Chief Audit Executive

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John Greene
Chief Audit Executive

AUDIT OF FINANCE DEPARTMENT OFF-CYCLE PAYROLL ONLINE MANUAL CHECKS AUDIT REPORT NO. 2018-011- FN **FINAL REPORT**

What We Did

In accordance with the Office of Independent Internal Audit's (OIIA) Annual Audit Plan, we conducted a performance audit of the Payroll Services' Off-Cycle Payroll (OCP) Online Manual Checks process. The purpose of the engagement was to determine whether OCP transactions processed were appropriate, accurate, authorized, and processed in accordance with standard business operations. In addition, the audit was to identify opportunities to strengthen the effectiveness and efficiency of the off-cycle payroll process. The audit examined bi-weekly OCP transactions processed from January 1, 2016, to December 31, 2017.

To accomplish the objectives, we interviewed both payroll and user department (UD) staff, reviewed policies and procedures for processing OCP transactions, and examined a sample OCP transactions processed during the audit period.

What We Found

We found that the current practices and procedures used to process OCP requests did not always comply with the PPM. In addition, we noted that the PPM did not cover many of the procedures related to processing OCP transactions. Specific audit testing and review noted the following:

- The PPM needs updating to include specific procedures for OCP transactions.
- Sample tests noted transactions processed that were not in compliance with current PPM.

What We Recommend

We recommend that payroll management update the PPM to reflect current procedures and specific reasons and requirements for processing OCP requests. These updates should include the following:

- Specific information regarding the persons who can authorize OCP requests.
- Procedures to help ensure that OCP transactions processed are approved by payroll management before check distribution.

In addition, we recommend payroll management educate the UD management regarding the acceptable reasons for processing OCP transactions. Further, we recommend payroll management update PPM to include procedures for rejecting requests that do not comply with PPM.

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BACKGROUND AND INTRODUCTION

Employee Services (Payroll) function is a component of the Finance Department's Risk Management Division. Payroll is charged with preparing and distributing weekly, bi-weekly, and monthly salaries. In addition, they process payments for voter election payrolls and pension payments to retirees in an efficient manner. As part of their responsibility, Payroll processes OCP requests and issues pay statements and online manual checks to correct payroll errors, including but not limited to the following:

- Employees not receiving a paycheck in error.
- Employees not paid accurate labor times from the previous pay cycle for reasons outline in the Payroll Policy Manual (PPM).
- Payroll did not receive the required employment documents to pay employees by the due date.
- Request to re-issue or replace lost, misplaced, or destroyed paycheck.
- Re-issue payment for direct deposited paycheck rejected by financial institutions.
- Reimbursement for items previously charged incorrectly.
- Check returned to payroll by the employee due to payroll error.

Payroll works with General Accounting to make the required adjustments due OCP requests to enable the County's service provider ADP to generate accurate and reliable W-2's and 1099-R's by the established due dates.

UD's payroll coordinators maintain employees' daily labor hours in Kronos, but the hours are uploaded to PeopleSoft by Payroll. For OCP purposes, the coordinators submit requests for OCP to Payroll on problem resolution forms after authorization by UD management personnel.

AUDIT RESULTS

The audit of the Off-Cycle Payroll (OCP) primarily focused on a review of the policies and procedures and a sample of transactions. We noted some opportunities for improvements in the process. The findings below are areas where we believe payroll policies, processes, and controls should be enhanced.

FINDING 1- Payroll Policy Manual (PPM) Needs Improvement

Objective: Verify that OCP transactions are processed in compliance with PPM.

Criteria: Written policies and procedures should ensure consistency of operation and reinforce management expectations. The Federal Internal Control Standards (Green Book, GAO-14-704G, Secion12.05, page 56) advises that management periodically review its policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks.

Condition: During the audit, we performed a walkthrough of the procedures for processing OCP transactions. We noted that the current procedures used were not always consistent with the procedures outlined in the PPM. Some of the exceptions noted have been summarized:

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- The PPM stated that only specific persons in the UD could authorize OCP. However, the list maintained by payroll contained persons no longer employed by DeKalb County. Payroll management updated the list during the audit.
- Payroll used the “Sign-In Sheet for Payroll Check Pick-Up” log to document the distribution of checks to employees and the UD payroll coordinators at the payroll window. The PPM did not outline information on the use of the sign-in sheet and the specific information to be obtained from employees when picking up checks in payroll.
- Also, there was no guidance provided to UD concerning controlling of checks until they are distributed within their respective departments.

Cause: Management stated that updates needed to be made to the manual regarding specific off cycle process procedures.

Consequence: Outdated policies and procedures increase the risk of errors and irregularities. Also, without updated policies and procedures, staff work may be inconsistent and not in compliance with management expectations.

Recommendation: We recommend management update the PPM to reflect current procedures and specific requirements for processing OCP requests. In addition, we recommend that management implement procedures to ensure current practices remain consistent with policies and procedures.

Management Response:

<i>Management Agreement</i>	<i>Description of Management’s Action Plan to Address Finding</i>	<i>Estimated Timeline to implement Action Plan</i>
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	The Payroll Manual is in the process of being updated to include specific procedures for Off-Cycle Payroll transactions. The preliminary draft updates to the Payroll Manual have been made and are being reviewed by Payroll Staff and Management to ensure that all updates are following Standard Operating Procedures.	The final draft of the Payroll Manual is scheduled to be completed and delivered to Department Heads for approval by March 31, 2021.
<i>Reason For Disagreement:</i>		

FINDING 2- OCP Transactions Not Compliant with PPM

Objective: To confirm that OCP transactions processed are authorized and appropriate.

Criteria:

- The PPM requires OCP requests to be authorized by the UD management.
- The PPM requires reprinted checks to be approved by the payroll manager before they are released to the employees or UD for distribution to the employees.

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- The PPM requires that UD submit OCP requests for regular hours greater than 8 only.
- The PPM requires UD to submit OCP requests along with the supporting documents and Payroll to process only OCP requests that include supporting “timecard” (timesheet).
- The PPM requires UDs to enter employees' labor hours, leave used, and leave adjustments to the Kronos timekeeping system by the due date to process a payroll. Any adjustment needed after completing payroll must be entered into the timekeeping systems and processed in the next payroll.

Condition: During the audit, we surveyed UD regarding how OCP transactions were processed and we reviewed a sample of OCP requests. Although the survey results indicated that UD management followed procedures outlined in the PPM, we noted the following:

- 13 of the 30 (43%) requests did not contain UD management’s signature to document authorization of the requests as outlined in the PPM. In some instances, the request forms prepared by payroll staff were not signed by another member of payroll management to indicate verification. In another case, the form was signed as approved by the same person who prepared the form.
- 21 of the 30 (70%) requests did not contain approval from payroll management.
- 21 of the 30 (70%) requests were for additional hours and the hours for 18 of the 21 (86%) had not been updated in the Kronos. In addition, 9 of the 21 (43%) requests sampled were for hours less than the eight hours required by the PPM.
- 18 of the 30 (60%) OCP requests processed were submitted without the required supporting documentation. The Payroll Department processed OCP requests submitted with or without supporting documentation, although the UD had maintained the timesheets for them.

Cause: Management stated updates needed to be made to the manual and communicated to the UD during quarterly payroll training sessions.

Consequence: The risk of errors and irregularities increases when transactions are processed without verification that they have been authorized by appropriate members of management.

Recommendation: We recommend management update the policies and procedures to include the following:

- Specific information regarding the persons who can authorize OCP requests.
- Procedures to help ensure that OCP transactions requiring reissued checks be approved by a payroll manager before processing.

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In addition, we recommend payroll management educate the UD management regarding the requirement for OCP requests. In addition, payroll management should update PPM to include procedures for rejecting requests that do not comply with PPM.

Management Response:

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	The Payroll Manual is in the process of being updated to include specific procedures for Off-Cycle Payroll transactions. The preliminary draft updates to the Payroll Manual have been made and are being reviewed by Payroll Staff and Management to ensure that all updates are following Standard Operating Procedures.	The final draft of the Payroll Manual is scheduled to be completed and delivered to Department Heads for approval by March 31, 2021.
Reason For Disagreement:		

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APPENDIX

Appendix I – Purpose, Scope, and Methodology

Purpose

The purpose of the engagement was to:

- Determine whether OCP for active employees was appropriate, correct, authorized, and supported in accordance with standard business operations.
- Identify opportunities to strengthen the effectiveness and efficiency of the OCP process.

Scope and Methodology:

The scope of this engagement was to examine documents in support of OCP from January 1, 2016, to December 31, 2017. The audit did not include the following OCP activities:

- Employees paid by pay advice.
- Payments made to pension recipients and to refund pension contributions.
- Employees paid weekly and monthly.

The methodology included, but was not limited to the following:

- Reviewing policies and procedures as it relates to payrolls in general with a focus on OCP.
- Interviewing finance personnel to obtain an understanding of the process.
- Examining documentation to support OCP disbursements.
- Identifying and testing significant controls over the effectiveness and efficiency of the procedures for processing and reporting OCP.
- Interviewing other appropriate personnel and management.
- Reviewing other applicable documentation.

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Appendix II – Management Response



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1300 Commerce Drive
Decatur, GA 30030

Chief Executive Officer
Michael L. Thurmond

Board of Commissioners

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Robert Patrick

District 2
Jeff Rader

District 3
Larry Johnson

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Steve Bradshaw

District 5
Mereda Davis Johnson

District 6
Ted Terry

District 7
Lorraine Cochran-Johnson

January 7, 2021

John Greene
Chief Audit Executive
Office of Independent Internal Audit
1300 Commerce Drive, Suite 300
Decatur, Georgia 30030

RE: **Management Response to “Off Cycle Payroll (OCP) Audit” Draft Report**

Dear Mr. Greene:

In accordance with DeKalb County, Georgia – Code of Ordinances / Organizational Act Section 10A- Independent Internal Audit, this is our response to the audit named above provided in this document. As required by the ordinance, our response includes 1) statement regarding our agreement or disagreement along with reasons for any disagreement, 2) our plans for implementing solutions to issues identified, and 3) the timetable to complete such plans.

If you have any questions about this response, please contact me or Pamela Dennis, Payroll Services Manager.

Sincerely,

A handwritten signature in black ink, appearing to read 'Larry Jacobs', written over a horizontal line.

Larry Jacobs, Assistant Finance Director
Risk Management & Employee Services

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Audit Finding 1- Payroll Policy Manual (PPM) Needs Improvement:

Recommendation:

We recommend management update the PPM to reflect current procedures and specific requirements for processing OCP requests. In addition, we recommend that management implement procedures to ensure current practices remain consistent with policies and procedures.

Management Response:

<i>Management Agreement</i>	<i>Description of Management's Action Plan to Address Finding</i>	<i>Estimated Timeline to implement Action Plan</i>
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	The Payroll Manual is in the process of being updated to include specific procedures for Off-Cycle Payroll transactions. The preliminary draft updates to the Payroll Manual have been made and are being reviewed by Payroll Staff and Management to ensure that all updates are following Standard Operating Procedures.	The final draft of the Payroll Manual is scheduled to be completed and delivered to Department Heads for approval by March 31, 2021.
<i>Reason For Disagreement:</i>		

Audit Finding 2- OCP Transactions Not Compliant with PPM:

Recommendation:

We recommend management update the policies and procedures to include the following:

- Specific information regarding the persons who can authorize OCP requests.
- Procedures to help ensure that OCP transactions requiring reissued checks be approved by a payroll manager before processing.

In addition, we recommend payroll management educate the UD management regarding the requirement for OCP requests. In addition, payroll management should update PPM to include procedures for rejecting requests that do not comply with PPM.

Management Response:

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<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	The Payroll Manual is in the process of being updated to include specific procedures for Off-Cycle Payroll transactions. The preliminary draft updates to the Payroll Manual have been made and are being reviewed by Payroll Staff and Management to ensure that all updates are following Standard Operating Procedures.	The final draft of the Payroll Manual is scheduled to be completed and delivered to Department Heads for approval by March 31, 2021.
<i>Reason For Disagreement:</i>		

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DISTRIBUTION

Action Official Distribution:

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Pamela Dennis, Payroll Services Manager

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Diane McNabb, Chief Financial Officer

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PROJECT TEAM

This report was submitted by:

Ralph Igwedibie

Ralph N. Igwedibie, MPA, CPA, CGMA
Internal Auditor
Office of Independent Internal Audit

01/28/2021

Date

This report was reviewed by:

Yolanda Lockett

Yolanda V. Lockett, CIA, CISA
Deputy Chief Audit Executive
Office of Independent Internal Audit

01/28/2021

Date

The report was approved by:

John L. Greene

John L. Greene, CIA, CIG, CGAP, CGFM
Chief Audit Executive
Office of Independent Internal Audit

01/28/2021

Date

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STATEMENT OF ACCORDANCE

Statement of Accordance

The mission of DeKalb County is to make the priorities of the citizens of DeKalb County; the priorities of County government - by achieving a safer DeKalb, building stronger neighborhoods, creating a fiscally accountable and more efficient county government and uniting the citizens of DeKalb County.

The mission of the Office of Independent Internal Audit is to provide independent, objective, insightful, nonpartisan assessment of the stewardship or performance of policies, programs and operations in promoting efficiency, effectiveness and integrity in DeKalb County.

This performance audit was prepared pursuant to DeKalb County, Georgia – Code Ordinances/Organizational Act Section 10A- Independent Internal Audit. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended for the use of the agency to which it was disseminated and may contain information that is exempt from disclosure under applicable law. Do not release without prior coordination with the Office of Independent Internal Audit.

Please address inquiries regarding this report to the Office of Independent Internal Audit at 404-371-2765.